

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

ADJUSTMENT OF RATES OF THE	)	
CHARLESWOOD SEWAGE TREATMENT	)	CASE NO. 8053
PLANT	)	

O R D E R

On November 26, 1980, Charleswood Sewage Treatment Plant (Applicant), filed its application seeking to adjust the rates it charges for sewage treatment services rendered to its customers on and after January 1, 1981.

The matter was set for public hearing at the Commission's offices in Frankfort, Kentucky, on March 31, 1981, by the Commission's Order entered January 14, 1981. The hearing was held as scheduled with all parties of interest having been duly notified and the Attorney General's Division of Consumer Intervention being the only intervenor of record. The entire matter is now considered to be submitted for final determination by this Commission.

TEST PERIOD

The Applicant proposed and the Commission has accepted the twelve-month period ending August 31, 1980, for the purpose of determining the reasonableness of the proposed rate. Pro forma adjustments have been included where found to be just and reasonable.

VALUATION METHOD

The Commission has found that the Applicant's investment records are insufficient in detail to provide the necessary

information to determine the net investment or capitalization of the Applicant for rate-making purposes. Therefore, the Commission is of the opinion that the operating ratio method should be utilized in this instance.

The formula used in completing operating ratio is as follows:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

#### REVENUES AND EXPENSES

Applicant proposed several pro forma adjustments to its income statement<sup>(1)</sup> and the Commission is of the opinion that these adjustments are necessary and present a fair and accurate description of the Applicant's current operations with the following exceptions:

1. Applicant had an actual test year expense for its manager's salary of \$1,500, however, the contract between Applicant and the manager calls for a base salary of \$100 per month with a fluctuation of no more than twenty percent. Thus, the Commission has determined the maximum amount for this expense to be \$1,440.

2. Applicant had an operation labor expense in its test year of \$19,828. The Commission believes this amount to be excessive and based on further information supplied by the Applicant<sup>(2)</sup> has determined that \$11,529 is a more reasonable amount for this expense.

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(1) Applicant's Exhibit No. 9

(2) Information filed April 22, 1981, in response to requests for additional information at the March 31 hearing.

3. The Commission, based on additional information supplied by the Applicant,<sup>(3)</sup> has determined that \$7,408 is a reasonable amount for Applicant's gas and electric expense.

4. The pro forma requested reserve fund for plant and equipment was disallowed by the Commission as it is no longer considered an appropriate expense for rate-making purposes. The Commission finds that sewage utilities, in general, fail to properly administer and maintain this fund.

5. Based on the amount of revenue found reasonable in this Order, the Commission has made an allowance for income taxes of \$1,973.

Therefore, following these adjustments, the Commission believes that Applicant's operating revenue and expenses can be summarized as follows:

	<u>Actual</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted</u>
Revenue	\$ 52,294	--0--	\$ 52,294
Expenses	<u>64,284</u>	<u>\$(10,711)</u>	<u>53,573</u>
Net Income (Loss)	<u>\$(11,990)</u>	<u>\$ 10,711</u>	<u>\$( 1,279)</u>

#### SUMMARY

The Commission is of the opinion that Applicant's adjusted net loss is clearly unjust and unfair. The Commission is further of the opinion that a revenue increase of \$8,584 will be sufficient to permit the Applicant to pay its operating expenses and will produce operating income of \$7,305 which results in a fair, just and reasonable operating ratio of 88%.

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(3) Ibid.,

Therefore, the Commission, after consideration of the evidence of record, and being advised, is of the opinion and finds that the rate proposed by the Applicant be denied, in that it produces revenue in excess of that found reasonable and that the rate attached hereto as Appendix A, be and hereby is, the fair, just and reasonable rate to be charged by Applicant to its customers for sewage service.

ORDERS IN THIS MATTER

The Commission, on the basis of the findings hereinbefore set out, and the evidence of record in this matter:

HEREBY ORDERS that the rate set out in Appendix A, attached hereto and made a part hereof, is the fair, just and reasonable rate to be charged by Charleswood Sewage Treatment Plant for sewage service rendered to its customers on and after the date of this Order.

IT IS FURTHER ORDERED that Charleswood Sewage Treatment Plant file within 30 days of this Order, its tariff sheets setting forth the rates approved herein and a copy of its rules and regulations for providing sewage service to its customers.

Done at Frankfort, Kentucky, this 5th day of June, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voh  
Chairman

Katherine Randall  
Vice Chairman

Don Hargrave  
Commissioner

ATTEST:

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Secretary

## APPENDIX A

### APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 7931 DATED JUNE 5, 1981.

The following rates are prescribed for sewage disposal service rendered to all customers served by Charleswood Sewage Treatment Plant in Charleswood Village Subdivision and the Wilt Paxton Elementary School, both of which are in Jefferson County, Kentucky.

<u>Type of Service Provided</u>	<u>Monthly Rate</u>
Single-Family Residential	\$ 11.80/month
Educational Facilities	202.95/month
Institutional Facilities	23.60/RE*

\*Per Residential Equivalent